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E.O. 12958: DECL: 6/25/2018  
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SUBJECT: SUBSIDY REFORM IS KEY FEATURE OF AHMADINEJAD'S NEW ECONOMIC PLAN

REF: RPO DUBAI 0020

DUBAI 00000036 001.4 OF 003

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REASON: 1.4 (d)

1.(C) Summary: President Ahmadinejad presented his new plan to fix the Iranian economy in a televised address to the nation June 24. Ahmadinejad listed his view of the problems facing the Iranian economy, citing slow economic growth, unemployment, inflation, waste of national assets, extravagance, and the growing gap between rich and poor as the key issues. The boldest feature of the economic plan is a reform of the subsidy system, an idea that the president first proposed in April, following the most recent parliamentary elections (reftel). Ahmadinejad also stressed the need for banking reform and a new tax collection system. The subsidy reform proposal would represent a fairly big step, since the current system features heavy subsidies for gasoline, electricity, food staples and other consumer goods. However, it is unclear when and how the plan will be implemented, if it is approved by the legislature. End summary.

Iran's economic problems: number one--slow economic growth

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2.(SBU) President Ahmadinejad unveiled his new plan to address the problems facing the Iranian economy in a televised address on state television June 24. Ahmadinejad began his assessment of Iran's economic problems by citing slow economic growth as a key deficiency. "We make huge investments and enjoy a high quality and quantity of human resources, the country's top managers and administrative organs work some 20 hours a day, but the economic growth of our country is not constant and sustainable, suffering greatly from [the] slightest shocks." He called Iran's economic growth last year "satisfactory" but admitted "it could have also been better." Referring to Iran's economic growth since 1998 (i.e. including the Khatami era), he said the curve of the country's economic growth since that time "shows great fluctuations."

Unemployment and inflation

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3.(SBU) Unemployment and inflation are Iran's second and third major economic problems, the president said. Unemployment has

been a problem in Iran for 40 years, Ahmadinejad said, lamenting that the rate has been in the double digits for most of the past 20 years. "Of course we tried to decrease the unemployment rate to less than 11%, but this rate is not constant and has constant fluctuations," Ahmadinejad offered before moving on to the issue of inflation. His presentation did not include a way to address the problem of unemployment, which is one of the economic issues of most direct concern to the average Iranian.

4.(SBU) On inflation, Ahmadinejad said that this also has affected Iran for the past 50 years, citing the "country's total dependence on oil incomes" as the main cause of inflation. "In [the] country's development plan, efforts have been made to lower this inflation rate, but that has not happened and as a result we inject liquidity to the system in [the] form of making investments, but the output is not satisfactory," the president said. Complaining about the economic planning problems created by inflation, Ahmadinejad added, "Inflation is among the major roots adding to deepening the social gaps and depriving the government of the chance to devise proper economic plans, while creating problems for the implementation of the government's various plans, and we therefore need to harness and decrease our national economy's inflation rate."

Waste, extravagance, and wealth disparity

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5.(SBU) Continuing the litany of problems affecting Iran's economy, Ahmadinejad cited waste of national assets and extravagance as two major issues. "Currently the greatest waste is in consuming energy in our country...and we can for instance particularly refer to the waste of different types of energy, fuel, bread, electricity, and time." Extravagance also plagues the Iranian economy, he said, "While our culture emphatically advises us to avoid it." Briefly mentioning the drought affecting Iran this summer, the president cited the higher water

DUBAI 00000036 002.4 OF 003

usage in the agricultural sector as an example of extravagance.

6.(SBU) Ahmadinejad attempted to reinforce his populist message by then drawing attention to the widening gap between rich and poor social classes in Iran. "Lowering this gap was one of the ideals of our revolution...what bothers us is that a large group [of] our society is deprived...since we are all members of the same family it is not right for some members to consume several times more..." Ahmadinejad said.

Addressing the problems: subsidy and customs reform

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7.(SBU) The feature of the president's economic plan is a reform of the subsidy system, an idea that he first proposed in April, following the most recent parliamentary elections (reftel). In his June 24 speech, Ahmadinejad said that the subsidies were meant to "support the low income and deprived social groups," and should be distributed in a "goal-oriented manner." He added, "The current apparatus of paying subsidies is very problematic, since it is meant to help the deprived classes, but it works in the opposite direction." Ahmadinejad's new plan proposes direct cash payments to low income families instead of subsidies. "In [the] near future the National Statistics Center of Iran will issue a communique so that those who need to apply for subsidies would fill out forms that will be evaluated, so that with highest benefits we would leave behind the goal orientation period of subsidies," he said.

8.(U) Ahmadinejad also called for changes in the customs system. "There is no connection link among the different customs offices nationwide either, which is why despite the hard work, the problems remain unsolved...the government is after solving this problem through ratification of a law," he said.

## Tax and banking reform

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9.(U) Calling to attention the problems of the tax system, Ahmadinejad said, "Since we do not have a proper tax collection system, many of our citizens do not even know they have to pay taxes." To address that problem, "the government has devised the comprehensive, automatic information and tax collection system, that based on proper training and sufficient information dissemination can improve the country's tax collection system."

10.(SBU) While explicitly refraining from criticizing the managers of Iran's banks, whom he called "among the most hardworking social groups," the president said the banking system is also in need of reform. The current banking system is not capable of "proper supervision over the process of economic activities," Ahmadinejad said, making a vague reference to corruption. He continued, "It is possible for a small group of people to take advantage of this system illegally, but if this structure would be reformed this problem, too, would be solved."

## Majles to examine plan

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11.(U) The president's economic reform plan will now need to be reviewed by the Majles. Majles speaker Ali Larijani told domestic press that a special economic committee will be established in parliament to study the plan. According to Fars News, Larijani said that such a major economic reform requires a comprehensive study and careful preparations, and added his recommendation that the government should move very cautiously in regard to the economic reform plan and there should be no hurry. He noted that no exact date has been set for the implementation of the plan.

12.(C) Comment: In the presentation of his new economic reform plan, as reported by Iranian press, Ahmadinejad spent more time listing the many problems that plague that Iranian economy than proposing specific methods to address those problems. The exception was the proposed subsidy reform plan, which if enacted, would represent a fairly bold departure from past practice and run the risk of triggering public outcry. The current system features heavy subsidies for gasoline,

DUBAI 00000036 003.4 OF 003

electricity, food staples and other consumer goods, which Iranians have relied on for decades. However, it is unclear how and when the plan would be implemented, if it is approved by the parliament. Majles approval of the president's plan is not a foregone conclusion, particularly under the supervision of new Majles speaker Larijani. Larijani is a conservative critic of the president, whom some observers list as a potential challenger in the 2009 Iranian presidential elections. He may not be inclined to assist Ahmadinejad's tarnished image as an economic steward in advance of these elections.ASGARD